THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

ANNUAL REVIEW OF AUDITOR GENERAL REPORTS

SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Office of the Clerk of Committees
SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS

Location:
Room 224, Parliament Buildings
Victoria, British Columbia
V8V 1X4

Telephone: **(250) 356-2933**

Toll free at: **1-877-428-8337**

Fax: **(250) 356-8172**

Email: **ClerkComm@leg.bc.ca**

Internet Homepage:
This report and others are available at our Internet Homepage which also contains further information about this and other Select Standing and Special Committees: **http://www.leg.bc.ca/cmt**

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LEGISLATIVE ASSEMBLY
PROVINCE OF BRITISH COLUMBIA

February 9, 2004

To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *Second Report* of the Select Standing Committee on Public Accounts.

The *Second Report* covers the work of the Committee from July 23, 2003 to February 9, 2004.

Respectfully submitted on behalf of the Committee.

Jenny Kwan, MLA
Chair

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COMPOSITION OF THE COMMITTEE

MEMBERS

Jenny Kwan, MLA	Chair	Vancouver-Mount Pleasant
Bill Bennett, MLA	Deputy Chair	East Kootenay
Bill Belsey, MLA		North Coast
Hon. Ida Chong, MLA		Oak Bay-Gordon Head
Arnie Hamilton, MLA		Esquimalt-Metchosin
Randy Hawes, MLA		Maple Ridge-Mission
Brian Kerr, MLA		Malahat-Juan de Fuca
Joy MacPhail, MLA		Vancouver-Hastings
Lorne Mayencourt, MLA		Vancouver-Burrard
Val Roddick, MLA		Delta South
Ralph Sultan, MLA		West Vancouver-Capilano
Patrick Wong, MLA		Vancouver-Kensington

CLERK TO THE COMMITTEE

Craig James, Clerk Assistant and Clerk of Committees

COMMITTEE RESEARCHERS

Josie Schofield, Research Analyst

Robert Parker, Committee Researcher

TERMS OF REFERENCE

On April 9, 2003, the reports of the Auditor General of British Columbia deposited with the Speaker of the Legislative Assembly during the Fourth Session of the Thirty-seventh Parliament be deemed referred to the Select Standing Committee on Public Accounts, with the exception of the report referred to in section 22 of the *Auditor General Act* which is referred to the Select Standing Committee on Finance and Government Services, and in addition that the following reports of the Auditor General of British Columbia be referred to the Select Standing Committee on Public Accounts:

- Managing Contaminated Sites on Provincial Lands (December 2002);
- Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games (January 2003);
- Building Better Reports: Our Review of the 2001/02 Reports of Government (January 2003);
- Follow-up Report on *TransLink* (December 2002);
- Follow-up Report on Managing Interface Fire Risks (November 2002); and
- Follow-up Report on Earthquake Preparedness (July 2002).

That the Select Standing Committee on Public Accounts be the committee referred to in sections 2, 6, 7, 10, 13 and 14 of the *Auditor General Act*. In addition to the powers previously conferred upon the Select Standing Committee on Public Accounts, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee,

and shall report to the House as soon as possible, or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

THE WORK OF THE COMMITTEE

The all-party Select Standing Committee on Public Accounts held nine public meetings during the fourth session of the 37th Parliament. One planning session also took place.

The first meeting was held on May 28, 2003. Following the election of the Chair and Deputy Chair, the Committee examined the records retention and disposal applications submitted by the Public Documents Committee and reported on this matter in its First Report to the House.

At the next meeting on July 23, 2003, the Public Accounts Committee was briefed by the Auditor General and the Comptroller General on the respective roles of their offices. The Committee's responsibilities under the new *Auditor General Act* were also discussed. These duties include approving each year the Auditor General's financial statement audit coverage plan.

The Deputy Chair, along with staff from the Office of the Clerk of Committees, attended the 24th Annual Conference of the Canadian Council of Public Accounts Committees in Winnipeg, Manitoba, in mid-September.

Beginning in early fall, the Public Accounts Committee focused on reviewing the main reports and follow-up reports tabled by the Auditor General of British Columbia with the Speaker of the Legislative Assembly during the last 12 months. The review process took place between September 10, 2003 and January 21, 2004 and is summarized in this report.

During the fourth session, the Committee considered six main reports, ten follow-up and progress reports. It also approved the Auditor General's financial statement audit coverage plan and his appointment as auditor of two organizations outside the government reporting entity.

By the end of the session, however, the Committee had not completed its examination of the following reports:

- Auditor General Report No. 4, 2003/2004 *Alternative Payments to Physicians: A Program in Need of Change* (November 2003)
- Auditor General Report No.5, 2003/2004 *Monitoring the Government's Finances* (December 2003)
- First Follow-up Report on *Managing Interface Fire Risks* (June 2001)
- First Follow-up Report on *Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure* (August 2001)

Minutes and transcripts of meetings and the reports of the Public Accounts Committee are available on the Legislative Assembly's web site at: www.leg.bc.ca/cmt/.

Copies of the reports produced by the Office of the Auditor General are available on its web site at: http://bcauditor.com/AuditorGeneral.htm.

AUDITOR GENERAL REPORT NO. 6, 2002/2003

Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games

Introduction

The Public Accounts Committee met on September 10, 2003 to consider the Auditor General's review of estimates related to Vancouver's 2010 Olympic bid. It heard presentations by the Office of the Auditor General; the Vancouver 2010 Bid Corporation; and the BC Olympic Games Secretariat, based in the Ministry of Community, Aboriginal and Women's Services.

Summary of Review

Background

In the summer of 2002, Vancouver was selected as one of the bid finalists to host the 2010 Winter Olympic and Paralympic Winter Games. As winning the bid could place a significant demand on the financial resources of the province, the Auditor General decided in the fall of 2002 to examine the financial implications of this decision. Concurrently, the Vancouver 2010 Bid Corporation and senior government officials asked the Auditor General to conduct a review of their estimates of the financial costs and revenues. The findings of the review were released in January 2003, six months prior to the announcement that Vancouver's bid to be the host city was successful.

At the time of the review, the Bid Corporation was responsible for estimating the cost of meeting the operating and capital requirements specified by the International Olympic Committee (IOC) and the Games-related revenues that will fund these costs.

The province - the sole guarantor of the Games - is responsible for estimating and paying for most Olympic-related costs that the IOC does not assign to the Olympic organizer. These responsibilities include medical and security costs, and costs seen as necessary to win the Olympic bid, such as upgrading the Sea-to-Sky Highway. The province's costs shown in the report do not include those related to an expanded Vancouver Trade and Convention Centre, or to a new rapid transit link from the Vancouver airport to downtown.

Review Purpose

The purpose of the review was to help British Columbians and legislators understand the overall financial commitment that the Games may entail, and to establish a clear baseline against which the province's undertaking, and any future spending on the Games, can be assessed.

Review Scope

The project team analyzed the estimates of costs and revenues prepared by the Bid Corporation, and the estimates of the province's financial undertakings and the predicted

economic impacts. It did not look at the financial operations of the Bid Corporation, or the Government of Canada's commitments to the Games bid.

The analysis involved an examination of the processes used to develop the bid estimate (a budget and plan for delivering what the IOC requires from an Olympic organizer), the assumptions underlying the numbers, and the plans for managing the risks associated with the planning and staging of the Games.

Key Findings

Bid Corporation's Estimates

A senior member of the project team summarized for the Committee the report's key findings related to the estimates of the Bid Corporation. The team concluded that the Bid Corporation's methods of estimating costs and revenues were reasonable, and its assumptions plausible for meeting the IOC requirements, which included reporting all revenues and costs in 2002 US dollars.

The project team's main concern was that some revenue targets are going to be difficult to attain. The two major revenue items are broadcast rights, $400 million (US), and international sponsorship, $100 million (US). Other revenue targets include $454 million from the local sponsorship program, $218 million from ticket sales, and $124 million from other revenue (e.g. licensing, donations, proceeds from the sale of assets).

Regarding operating expenses, the project team concluded that all major cost estimates have been prepared using a reasonable process and plausible assumptions. In addition, the Bid Corporation's cost estimates for planning and staging the Games and for cleanup include a reasonable contingency allowance.

Not included in the Bid Corporation's operating cost estimates are the medical and security costs ($101 million in provincial budget). Also, the Corporation's capital or venue estimates ($620 million), which include a $110 million endowment, will not be funded out of Games revenues but by the federal and provincial governments.

Province's Cost Estimates

The Auditor General informed the Committee that his report estimated that the province would spend a minimum of $1.2 billion in Games-related costs - with an additional $1.7 billion funded by revenue from staging the Games and by grants from the federal government. The province's Games-related costs include medical and security costs ($101 million), the upgrading of the Sea to Sky Highway ($600 million) - the largest provincial cost item - and $310 million for the province's share towards the sports venues.

The project team concluded that the province had used reasonable methods to develop the estimates for the major Games-related costs to which it is contributing. It had a major concern, however, about whether the contingency of $139 million set aside by the provincial government to cover cost overruns and revenue shortfalls of the organizing committee will be sufficient to cover uncertainties - such as foreign exchange risks and inflationary cost increases. Also, the province provides a financial guarantee to fund any shortfall in the Games' operating budget.

Conclusions

The Auditor General's report recommended three key areas for the Legislature to watch closely:

1. Ensure exemplary management is put in place. Professional project management and tight cost controls would be required in order to stick to the estimates.

2. Pay careful attention to the management of the $139-million contingency allowance, which represents a significant part of the estimate. Scrutiny of the use of contingency funding will give periodic snapshots of the progress of the Games.

3. Pay careful attention to revenue and to economic impacts. To attain revenue targets, especially around local sponsorship and the other-revenue category, will require a strong marketing program for the Games themselves. Achieving the projected economic impacts, set out on page 50 of the report, will require a strong tourism-marketing program for the province as a whole.

Witnesses' Response

Vancouver 2010 Bid Corporation

A vice-president of the Bid Corporation informed the Committee that the corporation was in the process of winding down and would cease to exist by the end of September 2003. A new organizing committee for the Games was in the process of being created to manage the funds that will flow through from the senior levels of governments and other sources.

The witness stated that the Bid Corporation appreciated the Auditor General's validation of the organization's approach to preparing the bid estimates, as it was so important from a strategic perspective to demonstrate the financial viability of Vancouver's bid both to the IOC and member partners. Since the announcement that the bid was successful, the IOC has asked the corporation's president to address all of the cities bidding for the 2012 Summer Olympics on how the Vancouver bid was done from a best-practices perspective in two key areas: operational and financial planning, and accommodation arrangements.

The Committee learned that the Bid Corporation had developed a "very comprehensive methodology" to prepare the estimates, employing local experts in transportation, venues and accountancy, and using the expertise of officials from previous Games to verify its operational approach. As well, the corporation had access to an IOC database to try and ensure that future host cities minimized the reinventing of the wheel.

The witness also stressed that staging the Olympics is a partnership. As a result, the Bid Corporation had taken "great pains" to work with officials from the different levels of government to ensure that its estimates jibed with theirs, and that each partner understood where their responsibilities began and ended, so that the bid estimate would be as comprehensive as possible.

Finally, in regard to the revenue targets, the witness reported that there has been "a pretty good start," in that the IOC's first major television contract with NBC for the 2010 Games over-performed, coming in at $820 million (US). The new organizing committee could expect to receive 50 percent of these broadcast rights - and this $400-plus million (US) represents about

60 percent of the overall projected revenue from broadcast rights. Another positive sign is the "incredibly strong interest" expressed by major Canadian companies in participating in the next phase, even though the organizing committee had not been formed yet.

BC Olympic Games Secretariat

The ADM for the Games secretariat stated that he was happy that the report validated the province's approach to preparing the cost estimates. Furthermore, the IOC evaluation committee had also noted that the financial estimates were well done.

Regarding the Auditor General's concern about the impact of inflation on the medical and security costs, the witness informed the Committee that federal and provincial officials reviewed these estimates during the summer of 2003 and concluded that there is no need to change the budgeted amounts at this time.

The Committee also learned that the Games secretariat has been working very closely with Tourism BC and the private sector to put together an extensive tourism marketing plan, so as to achieve the projected economic impacts outlined in the report. This plan involves all the tourism authorities in the province, with Tourism Vancouver, Tourism Whistler and Tourism Richmond taking the lead role.

The witness told the Committee that the province's contingency allowance needs continuing attention during the early planning process. There was no plan, though, to use any of the $139 million in the near future, access to which is tightly controlled by Treasury Board.

The ADM then updated the Committee on what the next steps are. These included: establishing an organizing committee, with member partner representation, which will update the budget and cost-control strategy; developing a marketing plan in conjunction with IOC expertise; preparing tourism marketing and trade and investment plans; and refining the risk management strategy.

Committee Inquiry

After hearing from the witnesses, the Committee raised the following concerns:

- the adequacy of the contingency allowances;
- the accuracy of the revenue targets;
- the need to monitor economic and social impacts; and
- the structure of the new organizing committee.

Individual committee members also inquired about revenue targets for international and local sponsorship, the anticipated proceeds from the sale of assets in the post-Games period, the risk management strategy for exchange rate fluctuations, insurance costs, security costs, and the costs attached to the IOC transfer-of-knowledge program.

Contingency Allowances

The Committee shared the Auditor General's concern that the $139 million set aside by the province might not be enough to cover cost overruns and revenue shortfalls. Some Members described this contingency allowance as "a relatively small amount" and questioned its

adequacy for the following reasons. First, the province's cost estimates do not include the costs related to the new Richmond-Airport-Vancouver rapid transit line, which the government has announced would be ready for the 2010 Olympics. Secondly, other cost pressures that can be expected now - e.g. a rate of inflation greater than 2 percent, a high Canadian dollar and construction cost overruns due to escalating labour costs - would eat into the contingency allowance. Therefore the committee members wondered if the Auditor General has had any discussions with government about expanding the $139-million allowance, either on its own or with contributions from other partners.

In response, the Auditor General informed the Committee that his office has done no further work on contingency funding since the report was completed. He then reiterated that it was important for legislators to receive regular updates on the status of the province's $139-million contingency allowance.

The Committee also learned from the Bid Corporation vice-president that the new organizing committee has approximately $100 million set aside in operating contingency and $40 million in capital contingency. He emphasized that this funding would be accessed first before approaches were made to the other partners - be they the province, the federal government, or the IOC. The witness also pointed out that the $600-million budget for the upgrading of the Sea-to-Sky Highway is not part of the Olympic budget. As such, it has its own contingency allowance that is quite separate from the $139 million discussed in the Auditor General's report.

Revenue Targets

Some committee members then asked for clarification about the method used by the Bid Corporation to forecast revenue targets. They were particularly interested in the rationale for the projected revenue of $400 million (US) from broadcast rights, when the actual price negotiated for the US rights alone has turned out to be $820 million (US).

In response, the witness stated that when formulating the bid, revenue was the Bid Corporation's "biggest concern." Based on the past trend of declining growth in revenues from the sale of worldwide rights for major sporting events, the IOC had given the bidders "very conservative numbers to work with." However, the first deal negotiated for the American broadcast rights has bucked the trend. The $820 million (US) represents a 35 percent increase over the amount negotiated for the 2006 Turin Winter Olympics (rather than the budgeted 14 percent). As a result, the new organizing committee can expect to receive half of that $820 million and the same proportion from the sale of broadcast rights to the rest of the world, which are expected to bring in $500 million (US). As the overall total for broadcast rights ($1.3 billion) is expected to be considerably higher than the original forecast ($800 million), the higher revenue would alleviate some of the concerns about the adequacy of the contingencies.

Economic and Social Impacts

Another concern of the Committee focused on the need to monitor the dispersal of the economic benefits of the Games to ensure all areas of the province benefit. Some committee members also stressed the need to pay heed to the social impacts - particularly the pressures on housing costs along the Sea-to-Sky corridor.

In response, the Auditor General pointed out that a section of his report (pages 48-50) contains a summary of two economic impact studies, completed in January 2002 and November 2002. Both make it clear that the highest economic impacts projected will only be obtained if a major provincial tourism-marketing program was ready to start as early as 2003; however, neither study looked at where the tourism benefits would be dispersed in the province.

This response prompted a follow-up question concerning which of the four possible economic impacts on GDP was the most likely one. According to the ADM of the Games secretariat, the highest estimate ($4.2 billion GDP) was valid, provided that there is a good marketing plan and sufficient business investment.

The witness then outlined for the Committee what the government was currently doing in regard to the regional dispersal of economic benefits. He explained that one of the benefits of being an Olympic host is that it would inspire communities around the province to look for ways of improving their sports infrastructure and programs. The specific initiatives included the federal-provincial Olympic Live Sites program, with ideas for projects from the regions reviewed by a committee of four government MLAs. There is also a network of 72 local committees headed by community chairs; the Planning for Gold program, based in the Ministry of Competition, Science and Enterprise; and liaison with the person who set up Business Australia.

Regarding social impacts, the Bid Corporation representative suggested that the current pressure on housing costs in the Sea-to-Sky corridor is due mainly to market conditions, rather than being Olympic-motivated. Nonetheless, the Corporation had anticipated that preparing for the Winter Games would place additional pressures on an already tight employee housing market in Whistler. So it has made plans to accelerate the construction of the athletes' village in that venue, and to use some of the housing to accommodate the construction crews during 2006-08.

New Organizing Committee

Some committee members inquired about the structure of the new organizing committee for managing the Games' overall budget of $2.9 billion during the next seven years. They learned from the ADM of the Games secretariat that the transition team is made up of the Canadian Olympic Committee, the Canadian Paralympics Committee, the federal government, the province, the municipalities of Vancouver and Whistler, and the Lil'Wat and Squamish First Nations. These member partners will nominate the 19 directors who will head the new Vancouver Organizing Committee for the Olympic Games and hire the management team. The witness explained that the new organizing committee will be a not-for-profit corporation incorporated under the Canadian *Corporations Act* and so some of its activities would not be subject to provincial freedom-of-information legislation.

In response to follow-up questions, the Committee learned that the lines of ministerial responsibility for cost overruns are divided between the Minister of State and the Minister of Transportation. It was also clarified that there is a budget item for the cost of an auditor, offset by revenue in the form of donated audit services.

Committee Recommendations

The Committee endorses the conclusions of the Auditor General's 6th Report for 2002/03, *Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games,* and recommends the same to the Legislative Assembly.

Other Matters

Future Role of the Auditor General

During the discussion of his report, the Committee learned from the Auditor General that he hoped to be named the external Auditor of Record, so that his office could monitor the spending of the significant amounts of provincial and federal moneys during the pre-Games period and then conduct a post-audit. In his view, it would be far more efficient to have one legislative auditor as "the point person" to give the assurances legislators expect to receive over the next seven years. So he proposed that his office would coordinate the pre- and post-Games audits, with assistance from the staff of the Auditor General of Canada.

In response, some committee members asked for clarification as to whether this was the normal practice in previous Games. The Bid Corporation representative responded that in Canada, it has traditionally been a private accounting firm that has provided audit services on a sponsorship basis. While a departure from past practice, the witness thought the concept of having the Auditor General act as the external Auditor of Record merited further consideration by the new board of the organizing committee.

The Committee discussed the matter at its meeting on September 22, 2003. Subsequently, on October 15, 2003, the Committee was advised that discussions were taking place with the provincial government in regard to the Auditor General's participation as the financial statement auditor for the new organizing committee. Further debate on the matter was delayed until the Auditor General reported back to the committee members on the outcome of these discussions.

Subsequently, at the meeting on November 13, 2003, the Committee learned that senior officials in government have agreed to make a recommendation to the board of the new Organizing Committee of the Olympic Games that the Auditor General be appointed the auditor of its financial statements. If the board agrees, the Auditor General stated that he would be asking the Public Accounts Committee for its support, in accordance with section 14 of the new Auditor General Act that requires PAC approval for auditing outside the government reporting entity.

AUDITOR GENERAL REPORT NO. 1, 2003/2004

A Review of Performance Agreements Between the Ministry of Health and the Health Authorities

Introduction

The Public Accounts Committee met on September 22, 2003 to consider the Auditor General's review of performance agreements between the Ministry of Health Services and the health authorities. It heard presentations by the Office of the Auditor General, the Ministry of Health Services, and the Provincial Health Services Authority.

Summary of Review

Background

The report points out that performance agreements are becoming common in the public sector around the world. Their purpose is to enhance accountability by setting out agreed upon performance expectations, requiring reports on how expectations are met, and providing incentives to promote efficiency.

In July 2002, the Ministry of Health Services and the six new health authorities in British Columbia signed performance agreements for 2002/03 to 2004/05. From the Auditor General's perspective, these agreements represented a significant step towards increasing accountability and strengthening the performance of the British Columbia health care system.

Review Purpose

The Auditor General conducted the review of performance agreements for three main reasons. First, with the restructuring of the regional health care system, it was recognized that the agreements needed to succeed as drivers of change and improvement. Second, the review was also timely, because the agreements were emerging as an accountability tool across government. Finally, there was the desire to give the Legislative Assembly and the public greater insight into the value of these types of agreements.

Review Scope

The six agreements between the Ministry of Health Services and the health authorities were examined from three different perspectives: governance, accountability, and performance measurement and reporting. The review team looked at a number of different types, or models, of performance-related documents and conducted interviews with the health authorities and ministry staff. The review was carried out between May 2002 and March 2003.

Conclusion and Key Findings

The review team concluded that the performance agreements needed to evolve considerably before they could be regarded as effective accountability tools between the Ministry of Health Services and the six health authorities. Many improvements were needed to provide greater

focus and clarity about who is accountable to whom, how accountability is to be achieved, and how to select the right performance measures.

The review team's first major finding is that the agreements lack a specific purpose. As a result, the ministry and the health authorities do not hold a common view of what the agreements are trying to achieve. Having four signatories to the agreements contributes to multiple accountabilities and complex relationships. Next, as the agreements do not state the most important objectives for the regional health care system, they have not achieved their potential of becoming the key accountability documents between the ministry and each health authority. Finally, the performance agreements contain "an eclectic gathering" of performance measures and issues, varying in clarity and usefulness.

Recommendations

The report contains 20 recommendations to improve governance, accountability, and performance measurement as the next set of agreements is developed. The Auditor General informed the Committee that the key recommendations relate to:

1. Purpose. Everyone involved with the agreements needs to have the same view of what the agreements are trying to achieve.
2. Responsibilities. There is a strong need to set out the responsibilities of both the ministry and health authorities clearly, so that all parties understand their obligations under the agreement.
3. Objectives. Clearly stated objectives are needed for the regional health system.
4. Measures and targets. A balanced set of performance measures and targets is needed to assess whether the expectations set out are being achieved.
5. Incentives and consequences. Realistic incentives and consequences are required to promote either continuous learning or, if the need arises, to take appropriate actions.

Witnesses' Response

Ministry of Health Services

The Deputy Minister of Health Services informed the Committee that it was very helpful to have the Auditor General's review of the BC government's first-ever performance agreements with the health sector. The review was particularly timely, as the ministry has initiated a process to develop new three-year agreements, starting in 2004/05. Even though there were a few areas of the report that posed challenges, the ministry agreed with the recommendations and was in the process of identifying the highest priority ones.

Regarding the six recommendations on governance, the ministry was endeavouring to move towards reducing the ambiguity around decision-making. However, as the adoption of an evidence-based and logic-tight model represents a "tremendous cultural shift," it will take time for the health authorities to implement it at the service delivery level and for government to adopt it at the policy and stewardship level.

The Deputy Minister then identified standardization as an issue that has an effect on how the ministry is going to manage the roles-and-responsibilities framework in the second set of

performance agreements. Should every health authority be getting to the objectives in the same way and at the same time? Or should the ministry vary the time frame in recognition of the fact that the regional health authorities are starting from different places? A related issue is deciding whether to use a flexible approach or a more rigid, across-the-board approach towards the independent health authorities to encourage both innovation and creativity.

Another governance recommendation posing a challenge for the ministry is the issue of who will sign the performance agreement. Four parties have signed the existing agreements: the Minister of Health Services, the Deputy Minister, the Board Chair and the CEO of each health authority. To clarify accountabilities, the report recommends that the Minister of Health Services and the Board Chair sign future agreements, and that the general roles of the Deputy Minister and the CEO be outlined in separate management agreements.

While understanding the Auditor General's position, the Deputy Minister reported that, at a pragmatic level, the ministry believed there was still an enormous amount of work to be done. She also pointed out that the current signing arrangement actually helps at the community level, because it is helpful for the public to know "whose heads are going to be on the line" for poor performance. For these reasons, the ministry planned to continue with the four co-signers for a bit longer, rather than adopt the recommendation of the report.

Regarding accountability, the Deputy Minister acknowledged that the performance agreements are the key accountability documents that form part of a broader accountability framework. However, one limitation is that these agreements cannot reflect evolving policy issues, such as the new federal-provincial agreement, or anticipate unforeseen policy issues like the SARS epidemic. Therefore questions for future consideration by the ministry are: How to use the performance agreement as the key focus of both short- and long-term activity by the health authorities? How to develop a process whereby the ministry can actually integrate evolving and emerging issues but keep a focus on some long-term strategies and hold people accountable?

Finally, in terms of performance measures and reporting, the witness reported that the ministry was able to access the performance indicators developed by the Canadian Institute for Health Information. However, finding indicators that can, in real time, be useful in a year-to-year performance agreement, which is linked into the ministry service plan, was "a really problematic issue," because the turnaround time for much of the health data is many months.

In terms of the report's recommendation regarding consequences for poor performance, the Deputy Minister explained that the literature is very clear that before an organization can move to imposing significant consequences, there has to be a culture of trust — particularly, mutual respect and legitimacy about government's ability to impose consequences when expectations have not been met. From her perspective, the ministry was still too early in its stewardship role to be able to have the requisite respect to be able to impose really concrete consequences.

Provincial Health Services Authority

The Committee also heard from the Chair of the Provincial Health Services Authority, who was responding on behalf of all the board chairs of the six health authorities. The witness described the report as "very useful" and also as "very insightful," in that it had identified the

confusing blend between command-and-control and collaboration between the ministry and the health authorities in the first performance agreements.

To address the issue of governance, the witness stated that the chairs of the health authorities believe a cultural change away from control to stewardship still needs to take place in the ministry. Since the release of the Auditor General's report, these authorities have been working very hard at improving collaboration, but changing the culture will not happen overnight. In fact, they are trying to encourage the ministry to take a longer view in the development of the performance agreements, which are "living documents that need to be refined in the light of actual experience." From the perspective of the health authorities, there are two issues to be resolved: first, deciding what indicators should be built into the agreements; and second, striking the balance between having achievable "large goalposts" versus overloading the health authorities with micromanagement.

The witness agreed with the two previous speakers about the need for greater clarity in decision-making roles. He also stated that the boards of the health authorities have no objection to each CEO signing the next performance agreements, if it helps the ministry. They also endorsed the report's "excellent suggestion" for a third-party assessment of board performance, especially if the effectiveness of board governance will be assessed, rather than the success of a particular board's results.

Regarding accountability, the chairs of the health authorities believed a collaborative approach was essential if the second set of performance agreements were to assume a greater role in the accountability structure. Not only will the agreements have to be more definitive, the authorities must also accept the drafting and analytical roles worthy of qualifying as full partners in the negotiations.

In response to the report's recommendation regarding the need for health performance measures, as well as financial measures, the witness explained that it will be quite challenging for the internal audit departments of the health authorities to find the particular skill set to comply with this request. In regard to consequences for poor performance, the health authorities were in agreement that there needed to be consequences for both parties — the ministry and the health authorities — written into the agreements.

Committee Inquiry

After hearing from the witnesses, the Committee raised the following concerns:

- the lack of clarity regarding lines of accountability;
- the role of public opinion in the review process;
- the ministry's approach to performance evaluation;
- the standardization and scope of performance measures; and
- the extent of stakeholder consultation.

Individual committee members also inquired about the scope of the health authorities' internal review processes, the time frame for the follow-up process, the cost to implement GAAP in

2004/05, the province's position regarding the national health council, and the contractual relationship between denominational institutions and the health authorities.

Accountability Issues

Signing Authority

The Deputy Minister of Health Services was asked to clarify why the ministry feels it is necessary to continue to have four signatures on the performance agreements rather than reducing the number to two, as recommended by the Auditor General's report. From the Committee's perspective, it made sense to retain the Minister and Board Chair as co-signers in order to streamline the lines of accountability — to make it simpler and easier to track — and, by extension, to drop the Deputy Minister and the CEO.

In response, the Deputy Minister acknowledged that the Minister and the Board Chair were ultimately responsible for the performance agreements. However, in her view, retaining the Deputy Minister and the CEO of each health authority reinforces accountability, by showing that senior staff is closely aligned in terms of the stated objectives and completely committed to achieving them.

Decision-Making Model

Some committee members also voiced a general concern about the lack of clarity in the existing accountability relationships between the ministry and the health authorities and stressed the importance of having a firm statement in the performance agreements on who is responsible for what. As an illustration, they cited the example of one health authority spending "an inordinate amount" of money on the creation of a new logo and wondered who is to be held accountable for that particular decision. They also wanted to minimize political influence in the allocation of health care resources — citing the example of knee scopes — so that elected officials, the ministry and professional managers could make logical decisions that lead to positive outcomes for the patients in the province and be held accountable.

In response, the Deputy Minister stated that four things are fundamental in trying to separate politics from professional, evidence-based decision-making. First of all, in its stewardship role, the ministry needs to provide the health authorities with the tools they need to make the best decisions. Second, the ministry has to respond in a timely manner to emerging issues so that the authorities have a policy framework on which to base their decisions. Third, the availability of comparative data that is recent enough to be useful is a joint responsibility. Finally, the ministry has a key role to play in helping elected officials understand what the evidence is, what the best practice is and what a good outcome means. For the Deputy Minister, this evidence- and logic-based approach, along with "a huge component of good, interactive communication," is how to get the politics out of health care decision-making.

Reporting Relationships

Not all committee members were convinced that the collaborative approach, proposed in the report, would clarify the reporting relationship. They felt it was unrealistic to talk about a partnership between the health authorities and the ministry when the reporting relationship was clearly a hierarchical one — with the chairs of the health authorities being accountable to the ministry. Furthermore, the Minister of Health Services is ultimately accountable to the

public for the performance of the health care sector and has the power to appoint and remove the board members of the health authorities.

In her response, the Deputy Minister agreed that the existence of the hierarchy means that stewardship is not just a monitoring, evaluating concept. From the ministry's perspective, the stewardship concept also encompasses the ability to strategically intervene and facilitate a change of direction, so as to achieve the deliverables that have been laid out by government.

Status of Performance Agreements

Some committee members asked for further clarification on the ministry's position in regard to the Auditor General's recommendation that the performance agreements become "**the** key accountability documents for health authorities." They were concerned about its written response on pages 61-62 of the report, which indicated that the agreements would not be "the sole focus of the ministry's performance management responsibilities." On a related matter, they also asked about the cost of the performance agreements.

In her response, the Deputy Minister explained that while the performance agreements are key accountability documents, the ministry does not regard them as the only ways of holding health authorities accountable for their performance — particularly in regard to unanticipated issues that may require action. In regard to the cost question, the witness indicated that the funding for the day-to-day work related to the performance agreements is approximately $12 million, or about a third of the ministry's annual program management budget.

Role of Public Opinion

Another inquiry of the Committee focused on whether the staff in the Office of the Auditor General had taken into account the concerns of the public in the different regions of the province during the review of the health authority performance agreements. Its specific questions were: how did the office find out about the public concerns at the start of its review, and was the review team satisfied that its answers will bode well with the public?

The Auditor General responded that almost every national opinion poll shows health care as being one of the key priorities for the people of BC and Canada, and that it will take time for the report's "good, sound advice" to make a difference, from the public's perspective. The review team leader added that the new performance measures, proposed in the report, would involve consultation by the ministry and the health authorities to find out what the public wants in terms of information about how well the province's health care system is doing.

The Committee also learned from the Deputy Minister that the ministry is in the process of implementing patient satisfaction surveys across the whole province, for the first time ever. These surveys were developed in conjunction with the health authorities.

Performance Evaluation

Some committee members were concerned about the witnesses' response to the report's recommendation related to consequences for poor performance. — in particular, the implication that implementing consequences at this time may lead to false reporting. They felt strongly that the ministry should be ensuring that the health authorities have a set of consequences that would be applied if the senior management failed to meet the performance objectives set by the boards.

Members pointed out that the public expects penalties for poor performance and also wants to have a far more clearly defined method of articulating how they feel about how things are going. In particular, the public wants to be able to say, "Look, this is what's going wrong here in my community, or in my hospital," and to have someone actually build that into some kind of a performance review that would have consequences, both good and bad.

In her response, the Deputy Minister explained that it was not her intention to leave the impression that the ministry would never apply some consequences. Currently, though, the ministry is trying to learn how to facilitate when an authority is having some difficulties in certain areas. The challenge it faces is: how to help the organization get things back on track without being seen as a hindrance or as micromanaging inappropriately? Later in the discussion, the witness also acknowledged that an element of "aggressive reporting," or gamesmanship, goes on in the highly competitive business of health care delivery, but that the problem can be mitigated by proper audits of data.

The Chair of the Provincial Health Services Authority then informed the Committee that peer pressure is the most powerful way to achieve deliverables, since a CEO does not wish to turn in a lower performance than his or her counterparts in the other health authorities. As well, each board of directors conducts formal annual performance reviews and if the directors find that a CEO is not performing to the standards set by the board, he or she would be fired — "the ultimate negative consequence of not performing."

The witness's response prompted some committee members to inquire about the use of financial incentives, as opposed to penalties, to manage performance. They learned that there is a bonus system integrated into the performance management plan for deputy ministers, and that three of the six health authorities were considering establishing a compensation system for their CEOs.

Performance Measures

Some committee members stressed the importance of having standard health information systems and uniform budgeting across the health authorities, while encouraging them to adopt different approaches and strategies towards health care delivery. They pointed out that standardization of the former would assist legislators to interpret the measurable results.

Another question was whether the performance measures would apply to the services contracted out by the health authorities as cost-saving measures and if so, whether the authorities would get measurable and relevant information from this type of arrangement. In response, the Deputy Minister reported that housekeeping and food performance standards, as well as audit processes, are built into the contracting-out agreements.

Stakeholder Consultation

The Committee was also interested in finding out about the consultation process used by the ministry for the 2004/05 performance agreements. In response, the Deputy Minister reported that in addition to discussions with the Office of the Auditor General and the health authorities, she has consulted with her colleagues in other jurisdictions — but not specifically with the province's physicians, who already have input at the health authority level and ministry level.

Some committee members also wanted a progress report on how the health authorities were seeking community input, an expectation outlined in the performance agreements, and on who was monitoring this type of consultation. They learned that the Provincial Health Services Authority has held a series of public meetings around the province, consults with advisory committees that are made up primarily of patients and professionals, and meets regularly with stakeholder groups. The Deputy Minister added that some of the regional health authorities hold their board meetings, preceded by open community forums, in different locations. She then reported that the performance management branch of the ministry assesses the health authorities' relationships with the community, their mechanisms for input and evaluates how well they are doing — based on input from the UBCM health committee and MLAs.

Committee Recommendation

The Committee endorses the 20 recommendations of the Auditor General's 1st Report for 2003/04, *A Review of Performance Agreements Between the Ministry of Health Services and the Health Authorities*, and recommends the same to the Legislative Assembly.

AUDITOR GENERAL REPORT NO. 5, 2002/2003

Managing Contaminated Sites on Provincial Lands

Introduction

The Public Accounts Committee met on October 15, 2003 to consider the Auditor General's audit of managing contaminated sites on provincial lands. It heard presentations by the Office of the Auditor General and the Ministry of Sustainable Resource Management.

Summary of Audit

Background

The report points out that the production of natural resources, such as forest products, minerals, oil and natural gas, forms a large part of the provincial economy. Many of the activities related to their extraction and use take place on public Crown land, comprising 92 percent of all lands in the province. However, the economic activity over the years has left a legacy of contaminated sites scattered across the province's public land, because it took place at a time when environmental regulations were often weak or non-existent.

As a result, the provincial government has become responsible for managing an extensive inventory of 2,000-plus contaminated sites either through its own operations, or by inheriting sites the private sector has abandoned or is financially unable to manage. These sites can pose serious risks to the environment and to human health. They can also create significant economic and financial costs if not managed properly.

The province participates in the management of contaminated sites in two ways. First, as a landowner, government is expected to manage its land holdings responsibly. Second, as a regulator, the province establishes and administers the legal and administrative framework for managing all contaminated sites in British Columbia. The regulatory environment is based on the polluter-pay principle: anyone who had any involvement with a contaminated site, such as an abandoned mine, is held liable until the property is remediated.

Audit Purpose

The purpose of the audit was to assess whether the province has an adequate program for managing the contaminated sites and whether it is adequately accounting for its performance. Specifically, the project team examined whether the provincial government has established an adequate governance framework; gathered appropriate information to develop management plans and to support resource allocations; and accounted adequately for its performance.

Audit Scope

The audit focused on the province's role as a steward and owner of Crown land, not on its role as regulator. The project team examined five ministries (Energy and Mines, Forests, Sustainable Resource Management, Transportation, Water, Land and Air Protection) and three Crown agencies (BC Buildings Corporation, Land and Water British Columbia Inc., Oil and Gas Commission). Within each organization, interviews were conducted with individuals

dealing with real property management and land use issues, and relevant documents were also reviewed and analyzed. This fieldwork was carried out during April to July 2002.

Overall Conclusion and Key Findings

The project team concluded that the province does not have an adequate program in place for managing contaminated sites, and is not adequately accounting for its performance.

The key findings of the audit were: that there is an inadequate foundation for a sound program, particularly around the issue of a policy framework; that there are significant gaps in the information that ministries and agencies need for developing management plans and for making resource allocation decisions; and that there is limited accountability information being provided by government ministries and agencies on their progress.

Recommendations

The report contains three broad recommendations asking the provincial government to:

1. Identify a lead agency with the appropriate authority to oversee the development and implementation of a comprehensive and coordinated government-wide policy framework for management of its contaminated sites.
2. Ensure that the information needed to develop sound management plans is obtained, and that management plans are developed and used as the basis for making resource allocation and funding decisions.
3. Establish an accountability framework for its contaminated sites, one that requires the disclosure of financial liabilities, expenditures and information about the accomplishments of its management of contaminated sites.

Government Response

Ministry of Sustainable Resource Management (MSRM)

The director of the ministry's contaminated sites program explained to the Committee that the MSRM had been selected to coordinate the government's response to the Auditor General's report. He reported that the ministry agreed with the recommendations and was already working to implement the necessary changes to improve government's management of contaminated sites on provincial lands. The MSRM is focusing on the changes needed for government as a landowner, while the Ministry of Water, Land and Air Protection is focusing on the regulatory side of the new contaminated sites management regime.

Regarding the report's first recommendation, the Committee learned that the MSRM has been appointed the lead agency and has initiated a government-wide strategic initiative to develop policies that will guide management plans for contaminated sites on Crown land. The ministry has also established a provincial contaminated sites committee that includes representation from the other seven government organizations that were examined in the audit.

To implement the report's second recommendation, the MSRM has completed a draft business plan for dealing with contaminated sites, which will incorporate the revised regulatory framework under development by the Ministry of Water, Land and Air Protection. As well, the ministry is taking the lead in developing a central registry of Crown land and a cross-

government database, while it outlines the inventory needs and assessment criteria that will assist in prioritizing sites to be remediated.

Finally, the ministry is taking steps to improve accountability across government, via the provincial contaminated-sites committee. It is also working with the Office of the Comptroller General to include financial reporting requirements in the new accountability framework to ensure that adequate information is compiled to facilitate liability assessment, risk management and performance reporting.

Committee Inquiry

After hearing from the witnesses, the Committee raised the following concerns:

- the collection methods and budget for cleanup costs;
- the coordination of the new management regime;
- the improvement of government-wide information; and
- the reporting of financial liabilities.

Individual committee members also inquired about the identity of the lead agency dealing with abandoned mine sites, the legislative and/or regulatory changes occurring during the audit process, the reporting of land values in the public accounts, the purpose of the phase 1 site inventory and the status of the central database.

Cleanup Costs

The Committee inquired how government collects the money from the polluter for cleanup costs. In response, the director of the contaminated sites program explained that the Ministry of Water, Land and Air Protection has the legislative authority to collect money owing and may end up actually going to court to secure it. Another option is to obtain it via negotiation - for example, the former Ministry of Environment negotiated an agreement with the owners of the Britannia Mine for a financial contribution payable to the Ministry of Finance.

On a related matter, some committee members wanted to know what had been accomplished with the $400,000 budgeted for contaminated sites cleanup in 2003/04. They were informed that this new funding was set aside to develop the contaminated sites program within the Ministry of Sustainable Resource Management and was spent mainly on staffing and administrative costs, and preliminary feasibility studies. The program director also indicated that the ministry would be approaching Treasury Board for additional funding once it has identified sites that require assessment to determine the nature of the contamination and whether there is provincial liability.

Other committee members, however, were concerned that the cost of remediation of sites like the Expo lands was excessive and even questioned whether the cleanup was warranted. They inquired whether the existing definitions of contaminants were reviewed during the audit process with a view to determining whether their impact would vary depending on the land use. They also asked whether the environmental standards in British Columbia are higher than in other jurisdictions across Canada.

The leader of the project team reported that a council of environment ministers across Canada addresses the issue of environmental standards fairly regularly so as to achieve some uniformity. In terms of the BC criteria for cleanup, there are different standards, depending on the land use - for example, a contaminated site can be simply paved over and used as a parking lot without any cleanup. If the lot were turned into some other use requiring remediation, then there would be other criteria applied in terms of the cleanup expectations - for example, the end use is a key factor that has to be looked at.

New Management Regime

The Committee requested further clarification on how the new management regime is going to work - specifically, how the Ministry of Sustainable Resource Management as the lead agency will coordinate the individual management plans of the eight government agencies dealing with contaminated sites and ensure that they fit together.

In response, the director of the contaminated sites program stated that the question raised the issue of how to establish a government-wide governance framework to manage contaminated sites, recognizing that to date each agency has been dealing only with those sites it knows it is responsible for. The current thinking is that within that new governance framework, each agency would develop its own management plans for its own sites. These individual management plans would then roll up into a central recording and accountability framework.

Government-Wide Information

Another inquiry focused on the Auditor General's second recommendation dealing with the improvement of government-wide information. The Committee asked the government witnesses to elaborate on the process and criteria for prioritization - in particular, whether they were developing criteria to deal with those contaminated sites that are the greatest risk, and if the criteria would be based on financial costs, human health costs or on environmental pollution costs. Members were informed that the new provincial committee was in the process of developing a set of criteria for determining priority sites that could apply across all of the agencies. The agreed-upon criteria are likely to include public health and environmental contamination as very high priorities, as well as the province's legal liability.

Financial Liabilities Reporting

The Committee also stressed the need to determine what the real financial liabilities are, particularly in the oil and gas sector, and to move towards having full disclosure of financial liabilities in the province's public accounts. Its specific concerns related to the current reporting of environmental cleanup/remediation costs, which were addressed at the meeting by the Comptroller General.

Committee Recommendation

The Committee endorses the three recommendations of the Auditor General's 5th Report for 2002/03, *Managing Contaminated Sites on Provincial Lands*, and recommends the same to the Legislative Assembly.

AUDITOR GENERAL REPORT NO. 9, 2002/2003

A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

Introduction

The Public Accounts Committee met on October 15, 2003 to consider the Auditor General's review of government oversight of multi-employer public sector pension plans in British Columbia. It heard presentations by the Office of the Auditor General and the Public Sector Employers' Council Secretariat, based in the Ministry of Finance.

Summary of Review

Background

The report focuses on government oversight of four public sector pension plans - the college plan, the municipal plan, the public service plan and the teachers' plan. Until about three years ago, the provincial government had sole responsibility to manage these plans. In July 1999, the passage of the *Public Sector Pension Plans Act* resulted in the devolution of control and the establishment of joint management agreements between the government and the various stakeholders representing the plan members.

Under the new joint trusteeship arrangements, government now has less control over the four plans than it had previously. Nevertheless, it continues to be a major contributor to each plan, as well as being responsible for half of any unfunded liability that may arise.

Review Purpose

The purpose of the review was to assess whether the government has identified the risks associated with the new public sector pension plan arrangements and whether it is managing such risks adequately.

The project team sought to answer four main questions: Did the government clearly set out what it wanted to achieve from the *Public Sector Pension Plans Act* and have those results been achieved? Did the government adequately identify and manage the risks associated with the new public sector pension plan arrangements? Has the government established an appropriate oversight process with which to monitor pension plan management? Is the government adequately fulfilling its accountability obligations to the Legislative Assembly in reporting on public sector pension plans?

Review Scope

The project team examined the oversight role performed by government for the college plan, the municipal plan, the public service plan and the teachers' plan during the summer and fall of 2002. It did not look at the governance and administration of the pension plans themselves (including whether current contribution rates are actuarially sound); the operations of the British Columbia Pension Corporation or the British Columbia Investment Management Corporation (which provide administrative and fund management services); or the

consultation process with plan members that preceded the joint management agreements, and whether plan members achieved their goals related to the new pension arrangements.

Overall Conclusion and Key Findings

The project team concluded that the government has generally achieved what it set out to achieve from the *Public Sector Pension Plans Act*. It is adequately managing the risks associated with the new pension plan arrangements and recognizes the importance of ongoing monitoring of the plans. However, it needs to develop the capacity to do so and to secure access to the information it requires to discharge its overall responsibilities. As well, it has to determine what it should report to the Legislative Assembly about how it is fulfilling its oversight responsibilities.

Recommendations

The project leader informed the Committee that the report's five recommendations focus on:

1. Cooperation and consultation between plan partners.
2. The knowledge, skills and experience needed on the boards.
3. Sufficient resources to effectively monitor the plans.
4. Information needed to monitor management of the public pension plans.
5. Information that should be reported to the Legislative Assembly and the public.

Government Response

Public Sector Employers Council Secretariat (PSECS)

The Deputy Minister and CEO of the PSECS, the agency assigned responsibility for oversight of the plans, presented the government's response to the report. He informed the Committee that the government was "quite pleased" with the overall conclusion of the Auditor General's report and basically agreed with all of the recommendations.

Regarding the first recommendation, the Deputy Minister stressed that as cooperation and collaboration is essential for joint trusteeship, the PSECS now meets with the plan partners whenever there are topical issues to discuss, rather than just having an annual meeting. To implement the report's second recommendation, the PSECS has asked the plan partners to supply a list of the knowledge, skills and experience they would prefer board trustees to have and has received a good response to date.

The third recommendation of the report related to government having properly trained and adequate human resources to provide oversight on its pension responsibilities. Recognizing that it was important to have more than one expert responsible for oversight, the PSECS now employs four people responsible for pensions who have completed extensive training.

Regarding the last two recommendations, steps have been take to ensure that the Office of the Comptroller General will now receive timely information on the pension plans. As well, in the future, the annual reports for the four pension plans and for the two corporations will all be tabled in the Legislative Assembly.

Committee Inquiry

After hearing from the witnesses, the Committee raised the following concerns:

- the extent of trustees' liability;
- the trustees' oversight responsibilities;
- the management of risk; and
- the adequacy of pension information.

Individual committee members also inquired about the frequency of actuarial evaluations, the timelines for information requirements, the senior management bonuses for corporate officers, the contractual agreements with external managers of pension plan funds, pension plan audits, and the inflation adjustment account.

Trustees' Liability

The Committee asked whether the trustees serving on the pension plan boards have any personal liability as managers of the plans. A member of the project team reported that they have a personal liability to exercise their responsibilities in a prudent manner.

In a follow-up inquiry, the witnesses were asked for further clarification on the conflict-of-interest issue referred to in the Auditor General's report (page 5). In response, the project leader explained that in the past, there was a perception of conflict in that PSECS employees with oversight responsibilities also had trustee responsibilities. His understanding was that the PSECS is going to address this issue, by implementing the report's second recommendation.

Trustees' Oversight Responsibilities

The Committee asked for further clarification on the respective oversight responsibilities of government appointees and the trustees elected by employees on the pension plan boards. In response, the project team leader explained that the former have the responsibility to protect the interests of taxpayers and to be accountable to the Legislative Assembly, whereas the latter have the responsibility to protect the interests of the employees. The witness also stressed that the trustees' first obligation is towards the pension plan members, making sure that the plan and the funds are solid and that they do not create any unfunded liabilities. Government, on the other hand, has a responsibility to monitor what's going on with the various plans, because if these plans are not managed well, it might have to pay in additional funds. It is responsible for half of the unfunded liability that might arise.

This response prompted a follow-up inquiry as to whether the project team had examined joint trusteeship models in other jurisdictions during the review process in order to frame the first recommendation regarding pension plan governance and the appointment of trustees. The witness reported that the project team looked at what is happening elsewhere, particularly in Alberta, but it did not do a thorough comparison of the appointment process.

Risk Management

The Committee asked for clarification on the statement in the Auditor General's report that government's "past practices may have created expectations which could result in claims by retired pension plan members." (page 33) In response, a member of the project team explained

that there are two past practices that pose a risk the government needs to monitor: (1) full indexing of the pension benefits with respect to inflation; and (2) full subsidization of group benefits for pensioners retired with more than ten years of service, which was eliminated in the summer of 2003. The project team leader added that the statement was simply intended to alert the government to a risk it had to monitor. However, when asked for his response, the Deputy Minister of the PSECS stated that the government's opinion is that it has neither obligation nor risk on that front.

On a related matter, the Deputy Minister was asked whether there were any outstanding lawsuits regarding benefit levels. He informed the Committee that there are two lawsuits launched by pension plan members: one relating to how certain funds were allocated to retired members of the college plan, and the other concerning benefit levels in the public service plan.

Pension Information

Some committee members asked whether the pension website explains clearly the reasons for the recent inflation adjustment in benefits, as there seemed to be "a lot of misunderstanding" among pension plan members who have contacted the constituency offices of MLAs. They were informed that the BC Pension Corporation has been dealing with this issue over the past year. To communicate with pension plan members, it produces regular pension statements and pension facts that are likely available on the central pension website. There have also been communications that have gone out with the quarterly pension statements.

Other committee members were concerned about the quality of information provided to prospective retirees and asked if proper exit interviews are conducted with people who are leaving government to explain their pension benefits in easy-to-understand terms. They learned that the BC Pension Corporation offers seminars to prospective retirees, as well as having a hotline and a "very good" interactive website. The Deputy Minister of the PSECS also reported that communication around pensions is a high priority with all pension plans, which have had to make hard decisions recently about benefit levels. They intend to communicate more on an ongoing basis about what part of the pension plan is guaranteed and what part is not guaranteed.

Committee Recommendation

The Committee endorses the five recommendations of the Auditor General's 9th Report for 2002/03, *A Review of Government Oversight of Multi-Employer Pension Plans in British Columbia,* and recommends the same to the Legislative Assembly.

AUDITOR GENERAL REPORTS NO. 10, 2002/2003 AND NO.3, 2003/2004

Adopting Best Practices in Government Financial Statements

Introduction

The Public Accounts Committee met on January 21, 2004 to consider the Auditor General's two reports relating to the financial statement reporting practices of government in 200/02 and 2002/03, and to receive a briefing on an IT audit conducted by his office in 2001/02. It heard presentations by the Office of the Auditor General, the Office of the Comptroller General and the Ministry of Management Services.

Summary of Financial Statement Audits

Background

As the summary financial statements are a major means by which the government accounts for its financial performance, the Office of the Auditor General audits them each year. The office's audit reports have been qualified each year since 1997, because public schools, universities, colleges and hospitals are not included yet in these financial statements. Government will include these organizations in its financial plans and reports for the fiscal year starting April 1, 2004, when it fully implements generally accepted accounting principles (GAAP).

Audit Purpose

One goal of the annual financial statement audit is to give assurance to the legislators and citizens of the province that the summary financial statements present fairly both the financial position of the government and the results of its operations. Another goal is to comment on the government's progress in adopting best practices in financial statement reporting.

Audit Scope

The first report, issued in March 2003, covers the financial information included in the government's 2001/02 *Public Accounts*, published in July 2002. The second report was released in November 2003. It comments on the information in the 2002/03 *Public Accounts*, issued by the government in June 2003.

Overall Conclusion and Key Findings

The project senior principal informed the Committee that the presentation of the Office of the Auditor General would focus mainly on the findings and observations of the second audit report, as the government has already acted satisfactorily on many recommendations made in the previous one.

The Committee learned that the Auditor General had to once again qualify his audit opinion on the 2002/03 summary financial statements, with a reservation about their completeness, because the financial activities and resources of schools, universities, colleges and health authorities – the SUCH sector – were not yet consolidated into these documents. The project

senior principal then listed the dollar effects of excluding the SUCH sector from the government summary financial statements. As of March 31, 2003, non-financial assets were understated by $3.6 billion, liabilities by $3.7 billion, and the accumulated deficit was overstated by $3.3 billion. The result of excluding these organizations on the statement of operations was that revenue was understated by $2.4 billion, expenses by $2.2 billion, and the annual deficit overstated by $200 million. The project leader reported that the Auditor General was pleased that the government will be including the entire SUCH sector in the summary financial statements, starting with the 2004/05 fiscal year, and anticipated that they would no longer need to qualify their audit opinion.

During its presentation, the project team also reported on the steps taken to standardize school district accounting policies so that they are appropriate and consistent with each other and with the government's accounting policies. As schools have a different year-end (June 30) from government (March 31), the issue is how to gain assurance on the intervening period (July 1 to March 31). The Committee learned that the government is presently considering having one consolidated financial statement prepared of all school districts as at March 31, 2005, which would then be used for consolidation into the summary financial statements for 2004/05. The Office of the Auditor General will audit this statement.

Recommendations

To assist the adoption of best practices for accounting and reporting, the 2002/03 report made six specific recommendations asking that government consider:

1. moving to early adoption of CICA recommendations;
2. accounting for amounts set aside in trusts to fund future expenses;
3. improving records of revisions to original estimates;
4. obtaining actuarial valuation of the liability for the retirement allowance;
5. improving the financial information provided about main sectors of government operations; and
6. improving the way interest expense and debt are disclosed.

Government Response

The Comptroller General informed the Committee that as the recommendations related to the 2001/02 *Public Accounts* have largely been dealt with satisfactorily, the focus of his office's presentation would be on the status of the recommendations made in the 2002/03 audit. He then presented the government's position on the major financial reporting issue -the inclusion of schools, universities, colleges and health authorities in the summary financial statements.

The Comptroller General pointed out that for many years government has disclosed the estimated impact of their inclusion in the government reporting entity, and that financial data related to their activities are not omitted entirely from the summary financial statements.

Furthermore, based on his recent experience as a member of the Public Sector Accounting Board, the new control criteria for defining what is in or out of the government reporting entity are much clearer now than in the past, but they will not come into effect until 2005.

Finally, the Comptroller General reminded the Committee that the *Budget Transparency and Accountability Act* requires the government to follow GAAP in all its financial reports, not just the public accounts, starting with the 2004/05 budget.

The director of the financial reporting branch in the Office of the Comptroller General then briefed the Committee on the government's response to the six specific recommendations in the Auditor General's 2003/04 Report. She also reported that the only areas of disagreement relate to recent changes to the government reporting entity, with the government reluctant to accept the Auditor General's position that the BC Pension Corporation, the BC Investment Management Corporation and the BC Forestry Revitalization Trust should be included in the summary financial statements. The witness also reported that the government has agreed to include universities but wishes to revisit this as other governments respond to the new entity criteria for this sector.

Regarding implementation of legislated GAAP, the witness updated the Committee on the major accounting changes involved for school districts: recording of employee benefits and tangible capital asset accounting. She reported that the original plan was to incorporate the districts by July 2000, but the complexities of implementation have delayed the formal consolidation to April 1, 2004. For the 2004/05 fiscal year, the audited GAAP-based financial statements for school districts will be for the year ending June 30, 2005.

Committee Inquiry

After hearing from the witnesses, the Committee raised the following concerns:

- the scope of the government reporting entity;
- the workload related to the inclusion of school districts; and
- the legacy of the acquisition of Skeena Cellulose.

Individual committee members also inquired about the interest expense allocation, the reporting of contingent liabilities related to the Sea to Sky Highway upgrading project, the timelines for quarterly reports, the disclosure of the government's equity in BC Hydro, the actuarial valuation of the liability for employee retirement allowances in the health sector, the accounting policy for P3 projects, such as the new hospital in Abbotsford, and the accrual of equalization payments.

Government Reporting Entity

Some committee members voiced a concern about the protracted nature of the disagreement in the accounting profession on determining the scope of the government reporting entity. They also thought it would be fair comment to acknowledge in the report that other jurisdictions have not adopted GAAP and so should also have qualified audit opinions in their financial statements.

Members also inquired about the previous attempt in the mid-1990s to accommodate the SUCH sector in the summary financial statements. In response, the Comptroller General reported that the 1995/96 financial statements did include schools, universities, colleges and hospitals in order to deal with an issue regarding fiscal agency loans made to those

organizations. Given the difficulties it posed in financial reporting, the next year that decision was reversed.

The witness also pointed out that the Public Sector Accounting Board's definition of the government reporting entity is different now. As a result of applying the new control criteria collectively, government and the Auditor General have determined that schools, colleges and health authorities are in and regional hospital districts are out. The one area that is still unresolved applies to universities.

On this issue, the Comptroller General stated that his position is that there is a technical argument for putting the universities in and a technical argument for excluding them. The government has decided to include them, as it does not wish to have a reservation on its financial statements for 2004/05 - when the province has legislated GAAP. However, government has also said that it will revisit this, depending on the way other jurisdictions apply the new control criteria. If universities are moved out of the government reporting entity, the province would face another write-off relating to the capital advances that government has made to the universities, because legislated GAAP does not currently support the establishment of prepaid capital advances.

The Auditor General responded to a follow-up question about the role of the Public Sector Accounting Board in resolving the disagreement between his own office and the government on whether the universities are in or out. He explained that the responsibility of the Board and other standard-setting bodies is to develop a set of principles that guide people trying to assess what the substance of the relationships is. In other words, they are not in the business of making specific rulings and telling the auditors or governing groups how to interpret and apply those principles to the specific circumstance - in this case, the relationship between universities and government. The Auditor General then endorsed the government's decision to include the universities in the financial plans to be presented to the Legislative Assembly in February and predicted that this would become the general practice in the future.

On a related question regarding the universities' own position on the issue, the Comptroller General agreed with the Committee's assessment that they are not happy with this particular outcome. He reported that while the universities support the government decision to include them in all the reporting requirements that relate to the collection of information, their preference is to be outside the government reporting entity. Their main concern about inclusion is the threat to academic freedom - particularly the prospect of being asked by government to contribute to a budget shortfall.

The Auditor General was also asked a question concerning the control criteria for including universities in the government reporting entity and the steps that would be required to relax the controls over these institutions so as to remove them from the consolidated financial statements. In response, he referred to his report on the 2001/02 financial statements (pages 14-16) that identifies the control criteria for inclusion - including the government appointing the majority of members of the board of governors and approving borrowing for capital acquisition.

School Districts

The Committee was interested in learning more about the workload involved in standardizing school district accounting policies. They were concerned about the duplication of professional services resulting from the preparation and audits of the interim financial statements (July 1 to March 31) and then of the full financial statements (July 1 to June 30).

In response, the Auditor General explained that the consolidated financial statement for the school system as of March 31 every year is going to be done centrally by the Ministry of Education, rather than having each school district have a separate financial statement prepared and audited. His office will audit the consolidated statement prepared by the ministry, which is a more efficient way of making sure MLAs have reliable information about the government's year-end financial results.

Skeena Cellulose

Another inquiry of the Committee related to the $323-plus million paid by government to support the forest products company, Skeena Cellulose, from 1997 to 2002. Members asked the Auditor General two specific questions on how the payments were accounted for. At the time was it clear to everyone exactly how much money was being spent and for what purpose? Or, with the benefit of hindsight, were there some financial reporting and disclosure issues related to this case that MLAs need to be aware of?

The Auditor General referred the Committee to his office's report on the 2001/02 public accounts (pages 33-36) that contains a summary of all the transactions related to Skeena Cellulose prior to its sale. In his opinion, legislators would have had a very difficult time understanding how loans were accumulating. The project senior principal then responded to the second question by stating that one lesson learned is that when the government makes a decision to finance a similar project, it is very important that the economic objectives be clearly defined, not just the political or social objectives, so that these could be monitored.

The Comptroller General, however, had a different assessment. Speaking as an accountant, he believed the acquisition of Skeena Cellulose was properly accounted for, based on the projections and other information that was made available at that time by the individuals involved in the acquisition process. Subsequently, the initial assumption of Skeena being a self-supporting government-business enterprise did not turn out to be correct, largely as a result of what was happening to pulp prices in the broader marketplace; and this change in circumstances was disclosed fully in the province's public accounts.

Summary of IT Audit

Following its deliberations on the financial statement audits, the Committee heard a presentation on an IT audit conducted by the Office of the Auditor General from November 2001 to January 2002. This review focused on a complex computer operating system called the Multiple Virtual Storage (MVS) that supports many of the government's financial and operating systems. The audit was designed to determine if management had set appropriate control objectives and had established procedures to meet those objectives.

The project director reported to the Committee that adequate controls existed in six out of the nine areas looked at: IT risk management, IT planning, system maintenance, physical security, disaster recovery, and personnel and security procedures. The three areas with inadequate controls were: computer operations, information systems support and IT logical security.

The project team concluded that the deficiencies in these internal control procedures for the three areas created a potential for security exposures in the form of inappropriate access to government information by three groups - support staff, by having excessive access to on-line ministry applications, files, tape utilities and backup tapes; government users who inappropriately were allowed access to government jobs prior to printing; and a small number of external users who had been incorrectly granted system access, rather than being restricted to only BC OnLine. Another deficiency the auditors reported on was the potential for system performance failures, created because some support staff inappropriately had access to system files, system memory, and operator commands. To address the control weaknesses, the project team made several suggestions contained in the audit's five conclusions.

A director from the Ministry of Management Services then presented the government's response. He informed the Committee that all of the recommended actions have been completed, except for one, which will be implemented by March 31, 2004.

In response to the briefing, the Committee stated that the security of government information was a very important area that should be monitored continuously, as the risks will always be there. Committee members inquired if there was a data chief who has complete oversight responsibility. In response, the Ministry of Management Services official informed the Committee that the government has a chief information officer, who is responsible for all information management and systems processing, and that a new person has been hired to fill the vacant position. The witness added that within the computer area, the ministry has a very specialized department for IT security, headed with professionals that do nothing else but look for exposures - whether it's viruses or hackers or terrorists - and take the appropriate actions.

In response to a question from the acting Chair, the Committee learned that no follow-up report on the MVS audit was planned. Instead, the Auditor General stated that the current priority is the examination of another major computer system, and that his office does not have the capacity to do a follow-up. He then announced that his office intends to ask the ministry to hire an outside IT group to confirm the steps it has taken to implement the recommendations and to do a similar kind of examination every two years of all major computer systems. The Comptroller General, however, agreed to do a follow-up, through internal audit and advisory services, on how the recommendations of the Office of the Auditor General have been addressed.

Committee Recommendation

The Committee endorses the recommendations contained in the Auditor General's 10th Report for 2002/03, *Adopting Best Practices in Government Financial Statements - 2001/2002,* and the Auditor General's 3rd Report for 2003/04, *Adopting Best Practices in Government Financial Statements - 2002/2003,* and recommends the same to the Legislative Assembly.

AUDITOR GENERAL FOLLOW-UP AND PROGRESS REPORTS

OAG Annual Follow-up Reports

September 10, 2003 Meeting

At the meeting on September 10, 2003, the Committee was briefed by the Auditor General on the status of four follow-up reports relating to the recommendations in:

- *Protecting Drinking-Water Sources* (March 1999);
- *Fostering a Safe Learning Environment: How the British Columbia School System is Doing* (June 2000);
- *Building a Strong Work Environment in B.C.'s Public Service: A Key to Delivering Quality Service* (April 2002); and
- *Earthquake Preparedness in British Columbia* (November 1997).

Regarding the first three follow-up reports, the Committee learned that the Office of the Auditor General was in the process of planning new audits on the same topics. It endorsed the Auditor General's suggestion that further consideration by the Committee be ended. They also approved another proposal, made by the Chair and the Deputy Chair, that the Auditor General carry out annual follow-ups on the state of earthquake preparedness in government and update the Committee each year.

September 22, 2003 Meeting

- *First Follow-up Report on Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System* (March 2002).

At the September 22, 2003 meeting, the Committee heard presentations from the Office of the Auditor General and the Ministry of Health Services on the status of the follow-up review. Members learned that there are still significant recommendations on information use that have not been implemented by the ministry. Therefore the Committee endorsed the Auditor General's proposal to carry out a further follow-up review in the next 12 months and to report back to the Committee once it is completed.

- *Second Follow-up Report on Managing the Cost of Drug Therapies and Fostering Appropriate Drug Use* (July1998).

Regarding this report, the Committee heard presentations from the Office of the Auditor General and the Ministry of Health Services. During the brief question-and-answer session, it learned that adequate progress is being made on the implementation of the recommendations. Therefore the Committee endorsed the Auditor General's plan not to carry out any further follow-up reviews relating to his July 1998 Report.

October 15, 2003 Meeting

- *Second Follow-up Report on Management Consulting Engagements in Government* (March 2001)

At the meeting on October 15, 2003, the Office of the Auditor General made a presentation regarding its second follow-up review of the implementation of the recommendations in its March 2001 Report, and then the Comptroller General presented the government's response. The Committee accepted the Auditor General's plan to conduct a further follow-up review on the status of the five partially implemented recommendations in 12 months' time.

- *First Follow-up Report on Management of the Information Technology Portfolio in the Ministry of Attorney General* (February 2002)

In regard to this report, the Committee heard presentations from the Office of the Auditor General and the Ministry of Attorney General and learned that at the time of the follow-up review (May 2003), five of the seven recommendations were either fully or substantially completed, and the two other ones partially completed. The Committee accepted the Auditor General's conclusion that there is no need for any additional follow-up on the February 2002 Report.

November 13, 2003 Meeting

- *Second Follow-up Report on Managing Interface Fire Risks* (November 2001)

At the meeting on November 13, 2003, the Committee heard a presentation from the Office of the Auditor General regarding its second follow-up review of the recommendations in its November 2001 report on managing interface fire risks. Officials from the Ministry of Forests, the Office of the Fire Commissioner and the Provincial Emergency Program responded on behalf of government.

The Committee learned that the Auditor General plans to carry out another follow-up on the eight recommendations that are only partially implemented, once committee members have concluded their deliberations on the second follow-up report.

Progress Reports on Public Performance Reporting

October 16, 2003 Meeting

A daylong meeting was held on October 16, 2003 to review developments in public performance reporting since the Committee first reported on this topic in February 2002. The Committee considered first the progress report produced by the joint government-OAG steering committee and then the Auditor General's latest review of annual reports. It also received a briefing on the assurance program being developed by the joint government-OAG steering committee for the public sector.

- *Reporting Principles and An Assurance Program for BC: Progress Report on the February 2002 Recommendations of the Public Accounts Committee of British Columbia Related to Building Better Reports,* Provided by the Government of BC and the Office of the Auditor General of BC, March 2003.

The Comptroller General informed the Committee that the origins of the joint progress report were the two recommendations made by a previous Public Accounts Committee in

February 2002 with respect to the Auditor General's Report, *Building Better Reports: Public Performance Reporting Practices in British Columbia* (November 2001).

One major recommendation called on government to work together with the Auditor General and legislators to seek consensus on the public performance reporting principles and the criteria that should be used for the BC public sector. Another recommendation urged the government to work with the Auditor General to develop and implement a program over time to provide independent assurance about the reliability of the information contained in the annual service plan reports that are produced by ministries, government organizations and government as a whole, including the use of pilot programs to test those concepts, and to report back to the Public Accounts Committee on the progress made.

Officials from the Ministry of Finance and the Office of the Auditor General then briefed the Committee on the eight proposed performance reporting principles for BC, which have been jointly developed to help move public performance reporting to a new level. Using the principles of the Canadian Comprehensive Auditing Foundation (CCAF) as the basis, the working group tailored them to BC's environment. The eight principles proposed are: explain the public purpose served; link goals and results; focus on the few critical aspects of performance; relate results to risks and capacity; link resources, strategies and results; provide comparative information; provide credible information, fairly interpreted; and disclose the basis for key reporting judgments.

The Committee learned that the eight principles have already been incorporated into ministry and Crown agency planning and reporting guidelines for 2004/05, and that the Auditor General is now using the principles to assess the quality of the annual reports. However, the Public Accounts Committee's endorsement of the principles would send a strong message to the BC public sector and would also be of interest to other jurisdictions.

Committee Recommendations

The Committee endorses the proposed BC reporting principles as a basis for service plan and annual service plan report guidance and assessment, and encourages government and the Auditor General to revisit the principles at a future date to ensure that BC's reporting principles continue to reflect good reporting practices in Canada and internationally.

The Committee strongly encourages ministries and Crown agencies to work towards the goal of using the eight principles outlined in this report to incorporate clear performance expectations into their major contracts with non-ministerial service delivery agencies.

October 16, 2003 Meeting

- *Building Better Reports: Our Review of the 2001/02 Reports of Government* (January 2003).

The Auditor General informed the Committee that this report is similar to the review published by his office in November 2001 of the quality of the government's 2000/01 reports and reviewed by the previous Public Account Committee in its February 2002 Report. He also stated that his office was currently reviewing the 2002/03 annual service plan reports.

The project leader explained that the specific objectives of the review of the 2001/02 annual reports of 40 organizations were (1) to inform legislators and the public about the quality of the reports; and (2) to encourage government ministries and Crown corporations to continuously improve the quality of these reports. To assess the reports, the project team used the six CCAF reporting principles, the only ones available at the time of the review. It concluded that government's reports were, on average, in the start-up/in-process stage for each of their reporting principles, and did not yet contain sufficient, appropriate information to allow for a full appreciation or assessment of government's performance.

As no recommendations were made, the Committee simply approved a motion to adopt the Auditor General's progress report.

Other Matters

The Committee also heard presentations on the following topics at the meeting on October 16, 2003:

- A briefing by a member of the joint government-OAG working group on the development of an assurance program for the annual reports of BC government ministries and Crown corporations.
- A report on the Office of the Auditor General's pilot work on performance reporting and assurance with the Public Guardian and Trustee of BC.
- An update on the implementation status of the Public Accounts Committee's recommendations with respect to the Auditor General's first report on public performance reporting practices, which was released in November 2001.

ANNUAL REVIEW OF THE AUDITOR GENERAL'S FINANCIAL STATEMENT AUDIT COVERAGE PLAN

At the meeting on November 13, 2003, the Public Accounts Committee met to review the Auditor General's proposed financial statement audit coverage plan for the next three fiscal years, as well as his request for approval to be appointed auditor of an organization outside the government reporting entity.

Background

Section 10(6) of the new *Auditor General Act* requires the Auditor General to prepare annually a plan for the appointment of auditors of the financial statements of government organizations and trust funds for the following three fiscal years.

Section 10(9) of the Act requires the Committee to review and approve the Auditor General's plan, including any amendments the Committee makes to the plan before giving its approval. In approving the annual audit plan, the Committee establishes which government organizations and trust funds will have their financial statements audited for a period of time by the Auditor General, and which government organizations will be audited by private sector auditors.

Section 14 of the Act permits the Auditor General to be appointed the auditor of an organization outside the government reporting entity, with the prior consent of the Committee.

Summary of Financial Statement Audit Coverage Plan

The Auditor General informed the Committee that his office proposes to audit the financial statements of 25 organizations out of the 155 in the government reporting entity in 2004/05, with other auditors auditing the remaining 130 government organizations. A similar distribution of financial statement audit responsibilities will apply in 2005/06 and 2006/07. The plan summary in Appendix A includes four newly created government organizations that the Auditor General has elected to audit for the first three years.

The Auditor General reported that the plan would have a small financial impact on his office's budget. The current practice of the office is to charge fees for its financial statement audit services to government organizations, on a cost recovery basis. His staff monitor the fees charged by private sector firms for similar audit services and are confident that the office's costs are not above market rates. The proposed plan forecasts that the office will recover about $2.3 million in each of the next three fiscal years.

Regarding the administration of the auditor appointment process, the plan points out that the governance board of each government organization appoints its financial statements auditor – either the Auditor General, if approved by the Public Accounts Committee, or another auditor selected by the board. Once the plan is approved, the Auditor General will communicate the Committee's decision annually to the board of each government organization.

Summary of Request for Approval

The Auditor General requested the approval of the Committee to continue as the financial statement auditor of the Workers' Compensation Board and the British Columbia Investment Management Corporation. The respective boards of these two organizations, which are outside the government reporting entity, have asked the Auditor General to continue as their auditor.

Committee Review

The Committee discussed whether to make acceptance of the audit plan contingent on the Finance and Government Services Committee's approval of the Auditor General's annual estimates, in accordance with section 19(2) of the *Auditor General Act.* A motion to this effect was withdrawn upon clarification that the proposed audit coverage plan related to the fee-for-service work under section 10, rather than to the work that is funded through the office's annual appropriation. This division of responsibility between the two legislative committees, however, was perceived by some committee members to be confusing and even "a bit dysfunctional."

Another focus of the Committee's review was the question of whether the fees charged for direct financial statement audits and section 14 audits were competitive with the marketplace. In response, the Auditor General reiterated that his staff keeps track of the industry's fees and audit costs so that the office knows what the market is paying and charging. As a general principle, his office's fees are based on its costs. In response to the suggestion that the section 14 audits should be conducted at the market price rather than on a cost recovery basis, the Auditor General offered to supply information next year on the difference between cost recovery and market rates.

Individual committee members also inquired about other examinations undertaken under section 13(2) of the *Auditor General Act,* direct audit selection criteria, relationships between private and public sector auditors, administration of the auditor appointment process, and inclusion of universities in the government reporting entity.

Committee Decisions

The Committee approved the Auditor General's "Financial Statement Audit Coverage Plan for Fiscal Years 2004/04 - 2006/07."

The Committee approved the Auditor General's "Request for Approval to be Appointed Auditor of an Organization Outside the Government Reporting Entity."

The Committee approved a motion requesting that the Auditor General present, as part of next year's submission, a price comparison between his own office's cost recovery fees and market rates for all audits conducted under section 14 of the *Auditor General Act.*

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